



# UNDERSTANDING HEALTH CARE COSTS

## PART I: THE MASSACHUSETTS HEALTH CARE SYSTEM IN CONTEXT— COSTS, STRUCTURE, AND METHODS USED BY PRIVATE INSURANCE CARRIERS TO PAY PROVIDERS

This report is the first in a new series from the Massachusetts Division of Health Care Finance and Policy (DHC FP) on health care costs—what they are, the forces that influence them, and how the health care market works. This report focuses on the structure of the Massachusetts health care system and the marketplace in which it operates.

### What is unique about Massachusetts health care?

- Health care is the largest employer in Massachusetts, and contributes significantly to the local economy—directly through employment in places where care is delivered and indirectly through industries that have been drawn to Massachusetts to be near some of the most influential medical centers and research facilities in the world. These industries include biotechnology and pharmaceuticals, among others.
- Massachusetts is first among states in terms of access and seventh among states overall on the *Commonwealth Fund State Scorecard*. Massachusetts hospitals are often cited as among the best in the nation in terms of the quality of health care services provided, scoring higher than national average on treatment of major conditions. Furthermore, Massachusetts health insurers are consistently rated among the top ten best insurers in each category nationwide.
- Massachusetts spending on health care is 15 percent higher than the rest of the nation, even when accounting for higher wages in Massachusetts and spending on medical research and education.
- Continued increases in health care spending could negatively impact economic activity in other sectors.

### What characteristics of the Massachusetts health care system are leading to high spending levels and rapid cost growth?

- The way health care providers are paid rewards those that provide a higher number of individual services, rather than those that are best at coordinating care or delivering good quality services in less expensive settings
- Greater availability and use of more expensive academic medical centers for both inpatient and outpatient hospital-based services, and use of outpatient hospital-based facilities for some services that could be provided in less costly settings
- A health care system dominated by a high number of specialty doctors (rather than primary care doctors that specialize in disease prevention) and by academic medical settings, both of which tend to provide costlier care
- A high concentration of physicians in academic medical centers compared to national averages
- Near universal health insurance and more generous insurance coverage than in other parts of the country, which leads to greater use of health care services, which in turn leads to higher levels of health care spending

#### About the DHC FP

The mission of the Division of Health Care Finance and Policy is to improve health care quality and contain health care costs by critically examining the Massachusetts health care delivery system and providing objective information, developing and recommending policies, and implementing strategies that benefit the people of the Commonwealth.

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